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Opinion

Charging sales tax on e-commerce is fair

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Michigan is taking a wait-and-see attitude toward efforts in some other states to take advantage of the huge tax potential from e-commerce.

The inability of state and local governments to collect sales and use taxes on remote sales is one of the most critical budget issues facing policymakers across the nation, according to the University of Tennessee's Center for Business and Economic Research.

But before you get your anti-tax sentiments heated to the boiling point, consider the issue of fairness.

And listen to the opinion of State Sen. Nancy Cassis, R-Novi and probably the most effective fiscal hawk in the legislature.

Cassis originally opposed taxation of Internet retailers but, "I have relooked at that position in light of the fairness issue."

"Main Street retailers not only remit sales tax to the state but pay for electricity and property taxes as well," Cassis pointed out. "They are at a distinct competitive disadvantage."

She also points out that the sales tax — which e-commerce vendors are by and large not paying — funds schools in Michigan.

Besides, many e-commerce retailers voluntarily comply with sales tax laws, Cassis said.

It is a battle that goes back nearly two decades.

In 1992 the U.S. Supreme Court, in the Quill case, ruled that a state could not tax an Internet retailer unless the business had a physical presence in that state.

However, Web retailers such as **Amazon.com** and **Overstock.com** do business through affiliates who do have a physical presence, so states such as New York and North Carolina are attempting to tax the affiliates.

"I thought it was very clever, but whether or not it will hold is an open question," Cassis said.

The financial benefits may not be quite what the states anticipate, though. Rather than gearing up to collect taxes, Amazon and other Web retailers are simply shutting down their affiliate marketing programs, according to The

Associated Press. As the small businesses that participate in these programs get cut off, a state could lose tax revenue rather than add to it.

That is one of the reasons Cassis, chairwoman of the Senate Finance Committee, thinks Michigan should wait before adopting the idea. The legal status of the concept must be settled as well, she said.

In addition to the fairness issue, there is a lot of money at stake with e-commerce, and regardless of opposition to any and all taxes, it is a fact traditional income sources such as sales, gasoline, property and income taxes are eroding.

The development of new technologies and digital processes has had a profound effect on the U.S economy as e-commerce sales have grown from \$995 billion in 1999 to \$2.385 trillion by 2006, according to a recently released study done by University of Tennessee researchers Donald Bruce, William F. Fox and LeAnn Luna.

"The rapid growth in e-commerce affects state and local economies in several important ways. First, state and local governments continue to lose sales and use tax revenues because of the inability to collect taxes that are due. Second, firms change their best business practices to avoid creating a collection responsibility in certain states. Firms choose to locate their selling or warehousing activities to avoid creating nexus rather than locating where they can operate most efficiently," the study said.

Nexus refers to the physical presence that would permit taxation.

Also, local vendors face a competitive disadvantage to e-commerce competitors as consumers browse in shops on Main Street but then make their purchases online to evade the tax, the study said.

Meanwhile, "lower-income consumers are more likely to make purchases in local stores where the tax is collected" if they don't have Internet access.

The study says that nationally, annual state and local sales tax losses on e-commerce will grow to \$11.4 billion by 2012 for a six-year total loss of \$52 billion.

"Changing the law to require remote vendors to collect sales and use taxes would recover a significant portion of the estimated losses, although we acknowledge that some noncompliance would remain," the researchers said.

"More important, our estimates are revenue losses associated with e-commerce and not all remote sales, and yet proposed legislation covers other types of remote commerce, such as mail order, telephone orders and deliveries made across state lines by unregistered businesses."

Cassis is optimistic a solution will eventually be found, though it has been a long time in coming.

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